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ANDRÉS
wines ltd.

Annual Report
March 31, 1977





Directors' Report to Shareholders

SALES

Sales for the year set a new record of \$21,047,897 compared with \$19,651,659 in 1976, an increase of 7.1%. This result was achieved under highly competitive conditions from both Canadian and foreign wines. During the year the market continued to be flooded by lower priced foreign wines, resulting in the foreign segment growing faster than the Canadian produced segment. Despite this competition, sales of Canadian produced wines showed strength in the sparkling and table wine areas. However, the fortified wine segment which is predominately Canadian, continued to decline during the year. The Company is involved in this segment only to a small extent and therefore our sales were not greatly affected.

EARNINGS

Net earnings for the year totalled \$1,301,830 as compared with \$1,441,461 last year, a decline of 9.7%. Fully diluted earnings per common share were \$1.19 compared to \$1.33 last year while basic earnings per common share were \$1.31 compared to \$1.47. Costs continued to escalate during the year and, coupled with no increase in prices in one of the major markets, resulted in pressure on earnings. The winery in Quebec showed another loss this year but smaller than in previous years. Sales in Quebec have been increasing steadily, but have been insufficient to offset the escalation of costs. Since sales during the last few months have been showing reasonable increases we are optimistic that the Quebec winery will show a small profit in the coming year.

DIVIDENDS AND RETAINED EARNINGS

Quarterly dividends declared on the common shares during the year totalled 60 cents per share, the same rate as last year. Semi-annual dividends totalling 60 cents per share on the preferred shares were declared during the year. Retained earnings increased to \$7,463,959 from \$6,769,686 in 1976.

FINANCIAL

Expenditures for fixed assets totalled \$317,027 compared with \$517,328 last year. Working capital increased from \$4,884,829 at the beginning of the year to \$5,175,158 at the end of the year. On June 1, 1977 the Company issued \$8 million in 20 year, 11% Secured Sinking Fund Debentures Series A. These Debentures are subject to an early maturity option and interest rate adjustment on June 1, 1985. The proceeds of the issue were used to retire a portion of the long-term debt and the balance to reduce bank borrowings which were incurred over the last several years to provide working capital and finance expansion programmes.

HIGHLIGHTS OF THE YEAR

In the grape growing provinces of British Columbia and Ontario there were large grape surpluses. Pressure from growers and Government authorities led to the Company purchasing grapes in excess of requirements. Because of our high inventory position we feel it necessary to resist such pressure during the coming year.

The Government's of British Columbia and Ontario have implemented programmes which will help the grape growers to dispose of the surplus crop and will help the local wineries compete more effectively with low cost foreign wines.

The Company has continued its research and development programme into new products and new packaging. As a result, we introduced several new products during the year among which were Almond Cream Sherry, Richelieu Petillant, Zinfandel, Cabernet Sauvignon, Inkameep and Johannisberg Riesling.

Each year since 1971 we have entered wines in international wine competitions and have now won a total of 33 gold, silver and bronze medals for quality. In the 22nd International Wine Fair held in 1976 at Ljubljana, Yugoslavia, silver medals were awarded for the following products: Vin de Chaunac, Similkameen Superior, Moulin Rouge, Golden Cream Sherry, Pale Dry Sherry and Fine Old Sherry.

Although we offer a full range of products, the major emphasis has been on our lines of still and sparkling wines where the growth has been in the past and where we expect it to be in the future.

Last year, we reported that the French champagne producers had issued writs against each of the champagne producers in Ontario for the use of the name champagne. The Canadian Wine Institute is still negotiating with the French producers and there are no new developments to report.

DIRECTORS AND MANAGEMENT

During the year Mr. Edward S. Arnold and Mr. George S. Dembroski tendered their resignations as Directors of the Company. The Directors wish to express their appreciation for the services rendered by these two Directors.

In June, 1976, Mr. John L. Bremmer, formerly Winery Manager was appointed General Manager of Andrés Wines (B.C.) Ltd. and in August, 1976, Mr. Murray A. Jackson, Ontario Sales Manager was appointed General Manager of Andrés Ontario Division.

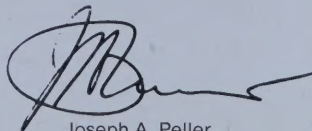
On June 23, 1977, Mr. Peter A. W. Green, Senior Executive Vice-President was elected President and Chief Operating Officer and the former President, Dr. Joseph A. Peller was elected Chairman of the Board and Chief Executive Officer. The founder of the Company, Mr. Andrew Peller, Chairman of the Board was elected Honorary Chairman.

OUTLOOK

While the uncertainties of the economic climate make forecasting difficult we are reasonably confident that the Canadian wine industry will improve over the coming year and as a result we expect to increase our sales accordingly. It is also expected that costs will continue to escalate, however, we are confident that we will be able to introduce cost controls that should offset these pressures.

The Directors wish to express their sincere appreciation to all employees for their continued dedication and efforts during the year. In addition we thank our customers, suppliers and shareholders for their continued strong support.

On behalf of the Board.



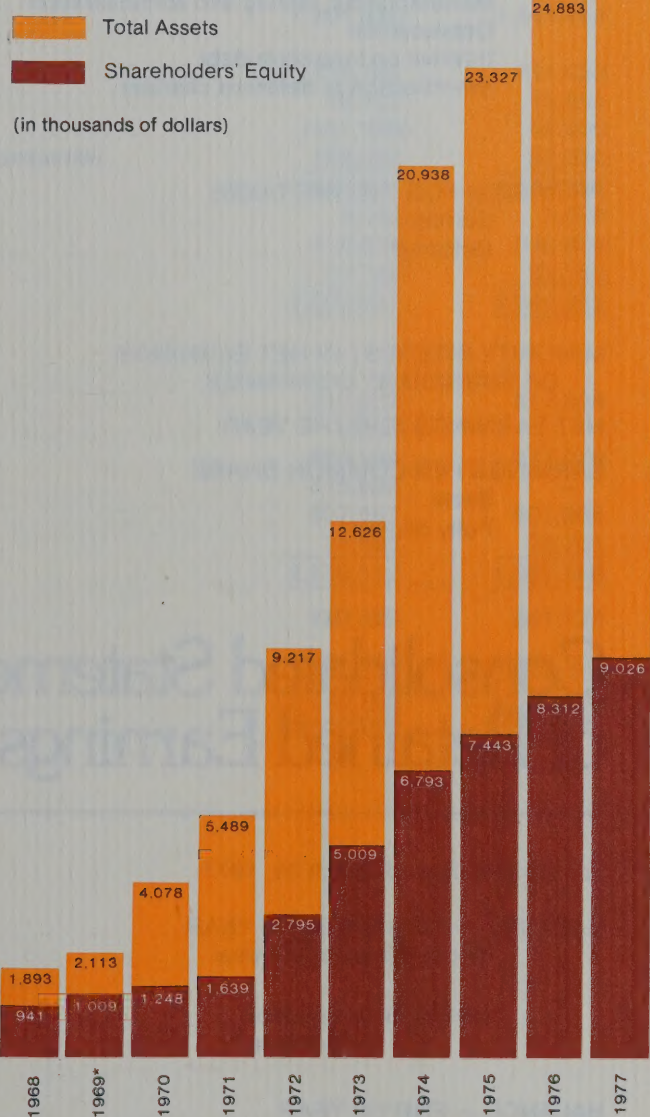
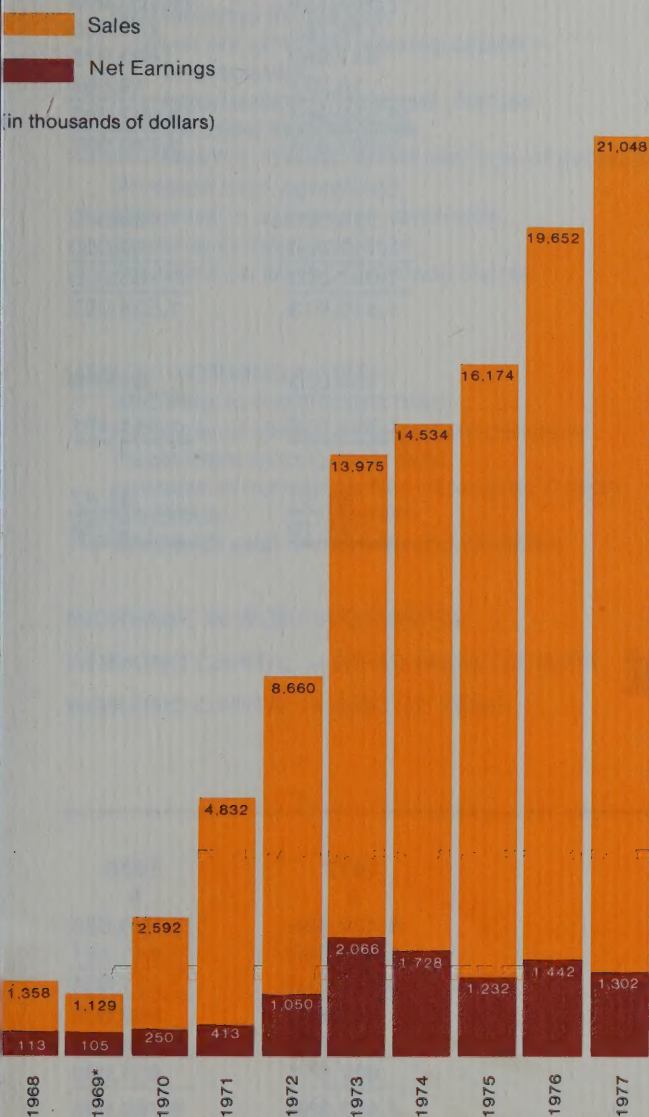
Joseph A. Peller
Chairman and Chief Executive Officer



The Year in Review

(in thousands of dollars)

	1977	1976
Sales	21,048	19,652
Depreciation	716	711
Income Taxes	1,097	1,185
Net Earnings	1,302	1,442
Net Earnings per share (in dollars)		
— Basic	1.31	1.47
— Fully Diluted	1.19	1.33
Dividends	608	602
— per preferred share (in dollars)60	.60
— per common share (in dollars)60	.60
Total Assets	25,748	24,883
Shareholders' Equity	9,026	8,312



*Represents 7 months only

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Consolidated Statement of Earnings

For the Year Ended March 31, 1977

	1977 \$	1976 \$
SALES	21,047,897	19,651,659
COSTS AND EXPENSES		
Manufacturing, selling and administration	17,363,724	15,737,903
Depreciation	715,781	711,030
Interest on long-term debt	441,952	463,975
Amortization of deferred charges	18,527	19,654
	<u>18,539,984</u>	<u>16,932,562</u>
	<u>2,507,913</u>	<u>2,719,097</u>
PROVISION FOR INCOME TAXES		
Current	1,214,000	1,136,000
Deferred	(117,000)	49,000
	<u>1,097,000</u>	<u>1,185,000</u>
	<u>1,410,913</u>	<u>1,534,097</u>
MINORITY INTEREST IN NET EARNINGS OF SUBSIDIARY COMPANIES	109,083	92,636
NET EARNINGS FOR THE YEAR	<u>1,301,830</u>	<u>1,441,461</u>
EARNINGS PER COMMON SHARE		
Basic	<u>\$1.31</u>	<u>\$1.47</u>
Fully diluted	<u>\$1.19</u>	<u>\$1.33</u>

Consolidated Statement of Retained Earnings

For the Year Ended March 31, 1977

	1977 \$	1976 \$
BALANCE — BEGINNING OF YEAR	6,769,686	5,930,223
Net earnings for the year	1,301,830	1,441,461
	<u>8,071,516</u>	<u>7,371,684</u>
Dividends — Common	587,568	582,009
— Preferred	19,989	19,989
	<u>607,557</u>	<u>601,998</u>
BALANCE — END OF YEAR	<u>7,463,959</u>	<u>6,769,686</u>

Consolidated Statement of Changes in Financial Position

For the Year Ended March 31, 1977

	1977 \$	1976 \$
SOURCE OF WORKING CAPITAL		
Net earnings for the year	1,301,830	1,441,461
Items not affecting working capital —		
Depreciation	715,781	711,030
Amortization of deferred charges	18,527	19,654
Deferred income taxes	(117,000)	49,000
Minority interest in net earnings of subsidiary companies	109,083	92,636
Provided from operations	2,028,221	2,313,781
Decrease in agreement receivable	5,000	3,079
Increase in long-term debt	476,678	315,836
Proceeds on issue of common shares	19,742	30,136
	<u>2,529,641</u>	<u>2,662,832</u>
USE OF WORKING CAPITAL		
Additions to fixed assets (net)	317,027	517,328
Purchase of shares of subsidiary company	4,203	—
Repayment of long-term debt	670,204	677,079
Increase in current portion of long-term debt	615,626	—
Dividends	607,557	601,998
Dividends paid to minority shareholders	24,695	24,701
	<u>2,239,312</u>	<u>1,821,106</u>
INCREASE IN WORKING CAPITAL	290,329	841,726
WORKING CAPITAL — BEGINNING OF YEAR	4,884,829	4,043,103
WORKING CAPITAL — END OF YEAR	<u>5,175,158</u>	<u>4,884,829</u>

Consolidated Balance Sheet as at March 31, 1977

Assets

	1977 \$	1976 \$
CURRENT ASSETS		
Accounts receivable	2,731,933	2,321,669
Inventories of wine and supplies	13,799,436	12,976,467
Prepaid expenses	<u>300,745</u>	<u>246,545</u>
	<u>16,832,114</u>	<u>15,544,681</u>
7% AGREEMENT RECEIVABLE ON SALE OF LAND		
— Due September 1, 1984	<u>23,000</u>	<u>28,000</u>
FIXED ASSETS		
Land, buildings, machinery and equipment —		
at cost less accumulated depreciation (Note 2)	8,859,923	9,250,693
Leasehold improvements —		
at cost less accumulated amortization	<u>18,529</u>	<u>26,553</u>
	<u>8,878,452</u>	<u>9,277,246</u>
DEFERRED CHARGES —		
at cost less accumulated amortization	14,469	32,996
 Signed on behalf of the board	 <u>25,748,035</u>	 <u>24,882,923</u>
J. A. Peller, Director		
W. J. Walsh, Director		

Liabilities

	1977 \$	1976 \$
CURRENT LIABILITIES		
Bank advances (Note 3)	9,122,292	8,451,173
Accounts payable and accrued liabilities	857,132	857,534
Dividends payable	147,200	146,083
Income and other taxes payable	244,506	534,862
Current portion of long-term debt	<u>1,285,826</u>	<u>670,200</u>
	11,656,956	10,659,852
LONG-TERM DEBT (Note 4)	3,136,725	3,945,877
DEFERRED INCOME TAXES (Note 5)	1,116,500	1,233,500
MINORITY INTEREST IN NET ASSETS OF SUBSIDIARY COMPANIES (including \$323,160 applicable to preferred shares — 1976 — \$323,360)	<u>811,469</u>	<u>731,324</u>
	<u>16,721,650</u>	<u>16,570,553</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK		
Authorized		
250,000 Preferred shares of the par value of \$10 each, issuable in series, of which 125,000 are designated as Series A 6% cumulative pre- ferred shares, redeemable at a 6% premium		
3,000,000 Common shares without par value		
Issued and fully paid		
33,315 Series A preferred shares	333,150	333,150
981,948 Common shares (Note 6)	<u>1,229,276</u>	<u>1,209,534</u>
	1,562,426	1,542,684
RETAINED EARNINGS	<u>7,463,959</u>	<u>6,769,686</u>
	<u>9,026,385</u>	<u>8,312,370</u>
	<u>25,748,035</u>	<u>24,882,923</u>

Notes to Consolidated Financial Statements

For the Year Ended March 31, 1977

1. SUMMARY OF ACCOUNTING POLICIES

Consolidation

These financial statements include the accounts of Andrés Wines Ltd. and its subsidiaries; Andrés Wines (Alberta) Ltd., Andrés Wines Atlantic Ltd., Andrés Wines (B.C.) Ltd., and Les Vins Andrés du Québec Ltée.

Inventory Valuation

Inventories are valued at the lower of cost or net realizable value. Cost is determined on an average cost basis.

Fixed Assets

Fixed assets are stated at cost. Depreciation is calculated on the straight line basis over the estimated useful lives of the assets as follows:

Buildings	2.5% per year
Manufacturing machinery and equipment	7.5% per year
Other equipment — depending on the equipment either	10% or 20% per year

Deferred Charges

Deferred charges are being amortized on a straight line basis between five and ten years.

Income Taxes

The financial statements include an appropriate provision for all income taxes for the year regardless of when such taxes are payable. Current income taxes payable have been provided in accordance with income tax regulations. Deferred income taxes arise principally from claiming capital cost allowances in excess of depreciation charged to earnings.

Earnings Per Common Share

Earnings per common share have been calculated after providing for the 6% cumulative preferred share dividends using the weighted average number of common shares outstanding during the year.

The calculation of fully diluted earnings per common share assumes the exercise of the options granted under stock option agreements mentioned in Note 6 and investment of the proceeds at 10% (1976 — 10%) less applicable income taxes.

2. FIXED ASSETS

	1977		1976	
	Cost \$	Accumulated Depreciation \$	Net \$	Net \$
Land	536,783	—	536,783	544,446
Buildings	4,450,818	616,235	3,834,583	3,928,674
Machinery and equipment	<u>7,807,730</u>	<u>3,319,173</u>	<u>4,488,557</u>	<u>4,777,573</u>
	<u>12,795,331</u>	<u>3,935,408</u>	<u>8,859,923</u>	<u>9,250,693</u>

3. SECURITY FOR BANK ADVANCES

Book debts have been pledged as security for bank advances. The company and certain subsidiaries have also given a fixed and floating charge debenture on all assets as collateral security for the bank advances. This debenture is subordinate to the long-term debt (Note 4) except for the 9% first mortgage bonds and 11-1/4% mortgage bonds.

4. LONG-TERM DEBT

	1977 \$	1976 \$
Bank loan repayable in monthly instalments of \$31,667 plus interest at prime bank rate plus 1-3/4%	746,664	649,990
Promissory notes due in equal instalments on January 1, 1978 and 1979, with interest payable semi-annually at prime bank rate plus 1/2%	1,231,252	1,231,252
Debentures due in equal instalments on January 1, 1980 and 1981 with interest payable semi-annually at prime bank rate plus 1/2%	1,209,349	1,209,349
Non-interest bearing debenture due January 1, 1981	300,000	300,000
Mortgage repayable in semi-annual instalments of \$90,000 plus interest at prime bank rate plus 1/2%	180,000	360,000
11-1/4% Mortgage bonds repayable in quarterly instalments of \$21,250 plus interest	276,250	361,250
9% First mortgage bonds, Series A, repayable in quarterly instalments of \$6,300 plus interest	88,200	113,400
10% Debentures due May 15, 1980 with interest payable semi-annually	75,000	75,000
6% Mortgage repayable on November 14, 1982, with interest payable semi-annually	<u>315,836</u>	<u>315,836</u>
	4,422,551	4,616,077
Less: Current portion	<u>1,285,826</u>	<u>670,200</u>
	<u>3,136,725</u>	<u>3,945,877</u>

5. FUTURE INCOME TAXES

A subsidiary company has accumulated losses for tax purposes amounting to \$960,000 which may be carried for-

ward to reduce taxable income in future years. These losses must be claimed no later than:

	\$
Year ending December 31, 1977	18,000
1978	452,000
1979	210,000
1980	182,000
1981	63,000
1982	35,000
	<u>960,000</u>

The future tax benefit of \$205,000 relating to \$490,000 of these losses expiring in the years 1979 to 1982 and of \$198,000 relating to \$472,000 of depreciation not claimed for tax purposes during the period of control by the Company have been recorded in the accounts and has been offset against the liability for deferred income taxes.

The future tax benefit relating to \$470,000 of these losses expiring in 1977 and 1978 and \$104,000 of depreciation prior to acquisition of the subsidiary has not been recorded in the accounts.

The realization of these tax benefits is dependent on the future profitability of the subsidiary.

6. STOCK OPTIONS

Outstanding options granted for the purchase of common shares are as follows:

Number of Common Shares Subject to Option	Exercise Price Per Share \$	Expiry Date
5,921	2.45	November 18, 1981
1,049	2.45	February 24, 1982
104,854	3.00	March 31, 1982

Outstanding options include 106,400 common share options granted to directors and officers.

An additional 25,898 common shares have been reserved for future options but have not yet been granted.

During the year, options on 8,058 common shares were exercised, including 7,000 common shares for directors and officers at the option price of \$2.45 per common share.

7. LEASE COMMITMENTS

The company has entered into lease agreements with varying expiry dates to December 31, 1981 for certain buildings and equipment. The annual lease payments required are as follows:

	\$
Year ending March 31, 1978	182,100
1979	50,200
1980	20,900
1981	20,900
1982	15,700
	<u>289,800</u>

8. DIVIDEND RESTRICTIONS

The Company is subject to the dividend restrictions of the Anti-Inflation Act and Regulations which became effective October 14, 1975 and are due to expire December 31, 1978.

9. STATUTORY INFORMATION RE DIRECTORS AND OFFICERS

Information required by Section 122.2 of The Canada Corporations Act is:

- There were eleven directors whose aggregate remuneration was \$8,800 (1976 — eleven directors; \$9,400).
- There were eight officers whose aggregate remuneration as officers was \$372,889 (1976 — nine officers; \$407,866).
- The number of officers who were also directors was five.

10. SUBSEQUENT EVENT

The company has entered into an agreement dated May 3, 1977 for the sale to an underwriter of \$8,000,000 principal amount of 11% Secured Sinking Fund Debentures Series A to mature June 1, 1997 for a total consideration of \$7,740,000. The estimated expenses in connection with the issue are \$100,000. The net proceeds will be used to retire approximately \$2,629,000 of long-term debt with the balance being used to reduce bank borrowings which were incurred over the last several years to provide working capital and to finance expansion programs.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Andrés Wines Ltd. as at March 31, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Andrés Wines Ltd. and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of one subsidiary, Andrés Wines Atlantic Ltd.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at March 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

May 25, 1977.

COOPERS & LYBRAND.
Chartered Accountants.

Ten Year Summary

	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>	(Seven Months) <u>1969</u>	<u>1968</u>
INCOME STATISTICS (in thousands of dollars)										
Sales	21,048	19,652	16,174	14,534	13,975	8,660	4,832	2,592	1,129	1,358
Income Taxes	1,097	1,185	1,047	1,215	1,957	1,023	461	200	75	53
Net Earnings before Minority Interest	1,411	1,534	1,330	1,835	2,154	1,121	452	296	105	89
Net Earnings	1,302	1,442	1,232	1,728	2,066	1,050	413	250	105	113
Net Earnings (in dollars)										
Per Common Share										
— Basic	\$1.31	\$1.47	\$1.27	\$1.84	\$2.53	\$1.48	\$.572	\$.335	\$.123	\$.136
— Fully Diluted	\$1.19	\$1.33	\$1.13	\$1.62	\$1.93	\$1.03	\$.533	\$.335	\$.123	\$.136
DIVIDEND RECORD (in dollars)										
Per Preferred Share	\$.60	\$.60	\$.60	\$.60	\$.60	\$2.10	—	\$.35	\$.70	—
Per Common Share	\$.60	\$.60	\$.60	\$.30	—	—	—	—	—	—
BALANCE SHEET STATISTICS (in thousands of dollars)										
Working Capital	5,175	4,885	4,043	3,614	3,065	2,063	1,443	1,544	428	402
Fixed Assets (net)	8,878	9,277	9,471	9,698	4,830	3,740	2,371	1,747	1,009	956
Long-Term Debt	3,137	3,946	4,307	4,993	2,161	2,617	1,978	1,961	412	441
Minority Interest	811	731	663	601	498	412	347	267	222	236
Shareholders' Equity	9,026	8,312	7,443	6,793	5,009	2,795	1,639	1,248	1,009	941
Total Assets	25,748	24,883	23,327	20,938	12,626	9,217	5,489	4,078	2,113	1,893
NUMBER OF SHARES OUTSTANDING										
Preferred Shares — Series A	33,315	33,315	33,315	33,315	33,315	33,315	33,315	33,315	33,211	33,155
Common	981,948	973,890	961,590	956,318	831,681	762,781	687,681	687,681	686,401	677,277

Note: The year end was changed from August 31st to March 31st in 1969.



DIRECTORS

D. W. Campbell, Milton, Ontario
G. R. Dawson, Vancouver, B.C.
R. D. Garon, St. Hyacinthe, Quebec
P. A. W. Green, Burlington, Ontario
C. O. Nickle, Calgary, Alberta
C. Norwood, Bedford, Nova Scotia
A. Peller, Ancaster, Ontario
J. A. Peller, M.D., F.R.C.P.(C),
Ancaster, Ontario
W. J. Walsh, M.D., F.R.C.P.(C),
Hamilton, Ontario

REGISTRAR AND TRANSFER AGENT

The Canada Trust Company
Montreal, Toronto, Calgary and Vancouver

OFFICERS

A. Peller, *Honourary Chairman of the Board*
J. A. Peller, *Chairman of the Board*
P. A. W. Green, *President*
D. W. Campbell, *Vice-President Marketing*
R. M. Logan, *Vice-President Operations*
N. D. Smith, *Vice-President Finance and Secretary*

AUDITORS

Coopers & Lybrand

BANKER

The Royal Bank of Canada

HEAD OFFICE

Winona, Ontario

PLANT LOCATIONS (including subsidiaries)

Port Moody, British Columbia
Calgary, Alberta
Morris, Manitoba
Winona, Ontario
St. Hyacinthe, Quebec
Truro, Nova Scotia



